



State Board of Equalization

# News Release

**Michelle Steel, Member**

**3<sup>rd</sup> District – Rolling Hills Estates**

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## **Michelle Steel: Deflation Spurs First Time Property Tax Reductions**

Michelle Steel, Third District member of the State Board of Equalization (BOE), announced today that most California homeowners will see a slight decline in property tax bills due to deflation.

This is the first time such a broad scale reduction in property tax base values has occurred.

“Property owners should be mindful of the current value of their property, and bring any irregularities to the attention of their County Assessor,” said Steel.

Nearly all real estate in California is assessed under the terms of Proposition 13, the 1978 ballot initiative that generally requires real property to be taxed on the basis of its fair market value as of the most recent change in ownership. Under Proposition 13, once such a base year value is established, it must be adjusted in subsequent years by an inflation factor, but any increases resulting from these annual adjustments are capped at 2 percent per year.

Since the passage of Proposition 13, the inflation factor has never been negative, and in all but five years the inflation factor has been 2 percent or higher.

With negative inflation occurring over the 12 month period ending in October, all Proposition 13 base year values must be adjusted downward to reflect the deflation.

The BOE’s preliminary estimate is based on U.S. Bureau of Labor Statistics Consumer Price Index (CPI) numbers released in mid-November.

The California Department of Industrial Relations calculates the California Consumer Price Index (CCPI) using the same price data. The official CCPI number will be released soon, following which the BOE will notify county assessors of the rate to apply to assessed property values. This official notification will come through a Letter to Assessors released in December.

The announced adjustment factor will be reflected in assessments made as of January 1, 2010. The base year adjustments will be reflected on tax bills sent out in October 2010 and due by December 10, 2010 and April 10, 2011. Property taxes are collected by local county tax collectors and are used at the local level to fund local programs and services.

BOE staff released an opinion in September of this year determining that if inflation turns to deflation in any year, the adjustment factor must go negative.

Even with this base year value reduction reflecting the deflation, some property owners may not see a reduction in their properties’ assessed values. An example of where this would occur is if the assessed value has already been reduced due to recent market declines. Those property owners could actually see an increase in the annual assessed

value and resulting tax bill if the current market value of the property has increased from January 1, 2009 to January 1, 2010. Proposition 13 requires the assessor to use this higher current market value for the 2010 assessment, provided this value does not exceed the property's factored base year value.

While the savings for the 2010 year is minimal for most taxpayers, about \$2.60 for every \$100,000 in assessed value, had the 2 percent inflation adjustment occurred that is typical since the passage of proposition 13, the corresponding increase to the homeowner would have been about \$22 for every \$100,000 in assessed value. The following table offers one example:

2009	2009	2009	2010	2010	2010	2010	
Base Year Value	Average Tax Rate	Tax Owed	Calculated Inflation Adjustment	Base Year Value	Average Tax Rate	Tax Owed	Change in Tax Liability
\$250,758	1.098%	\$2,753	-0.237%	\$250,164	1.098%	\$2,747	\$-7

2009	2009	2009	2010	2010	2010	2010	
Base Year Value	Average Tax Rate	Tax Owed	Hypothetical Full Inflation Adjustment	Base Year Value	Average Tax Rate	Tax Owed	Change in Tax Liability
\$250,758	1.098%	\$2,753	2.000%	\$255,773	1.098%	\$2,808	\$55

Elected to the Board of Equalization in 2006, Michelle Steel serves as Southern California's elected taxpayer advocate. In 2008, Steel uncovered a \$42 million mistake in the agency's sales tax refund procedures. Following her investigation, the tax agency refunded tax security deposits to over 5,500 small businesses.

The five-member California State Board of Equalization (BOE) is a publicly elected tax board. The BOE collects more than \$53 billion annually in taxes and fees supporting state and local government services. It hears business tax appeals, acts as the appellate body for franchise and personal income tax appeals, and serves a significant role in the assessment and administration of property taxes. For more information on other taxes and fees in California, visit [www.taxes.ca.gov](http://www.taxes.ca.gov).

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